



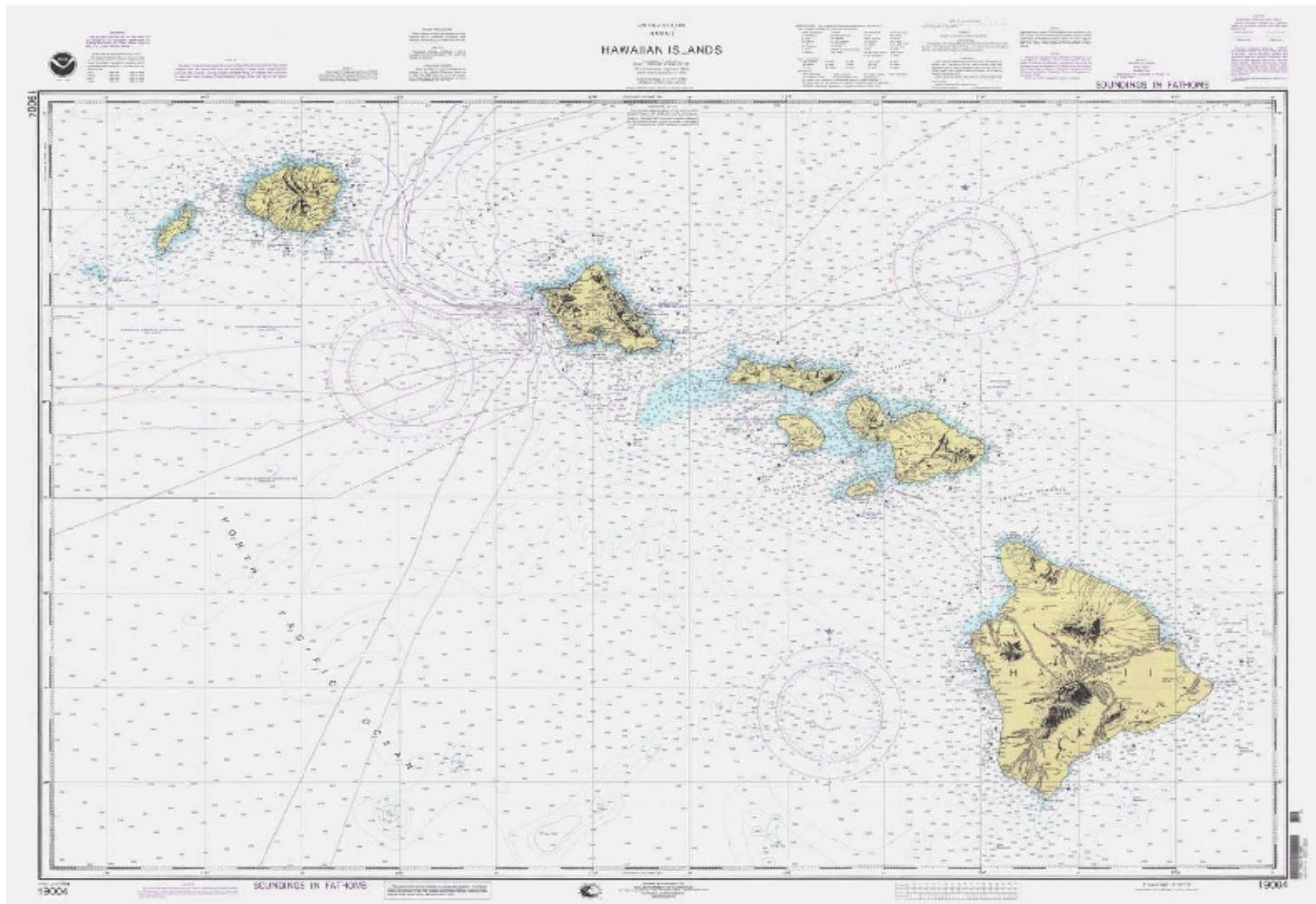
# **Hawaiian Telcom, Inc.**

**Hawaii Broadband Access Fund  
October 2011**

# The ABC Plan Is Not A Solution for Hawaii

- The ABC Plan was designed for the contiguous 48 states (CONUS), and will not solve Hawaii's broadband access problems
- Providing service throughout Hawaii is challenging:
  - Unique demographics with large Native Hawaiian population, most living outside the Hawaiian Homelands (HHL)
  - Insular state which is the most isolated population center on the planet with population dispersed on six separate islands
  - Extremes of topography and climate – steep volcanic mountains, rain forests, inaccessible communities, tsunamis, earthquakes
  - Historic underfunding of the ILEC in the state due to a single, statewide study area definition

# Hawaii: America's Only Insular State



# Hawaii Broadband Access Fund (H-BAF)

- The H-BAF would cap all federal high-cost and access support at 2010 levels, about \$62 million per year in total
- Existing high-cost support (and any new support that the Commission deems necessary) should be repurposed for broadband
- In Hawaii, this support should be targeted to broadband deployment and operation in the highest-cost parts of the state, the Neighbor Islands (NI)
- H-BAF support would flow for a minimum of ten years, and could be applied to broadband operating expenses as well as capital expenses
- H-BAF could be applied to construction and operation (or lease) of middle mile facilities (such as inter-island fiber)

# Hawaii Broadband Access Fund (H-BAF)

- IAS would be frozen at current levels
  - About \$2 million per year
  - HT is the only incumbent local exchange carrier (ILEC) in the state, the state's carrier of last resort (COLR), and a price cap carrier – it relies on IAS to support its neighbor island network and services
  - Each eligible telecommunications carrier (ETC) currently receiving IAS would continue to receive it in the 2010 total company amount, conditioned upon providing covered broadband service to the geographic areas for which IAS is received
  - IAS is excluded from any changes because it is earned exclusively for universal service coverage in the NI

# Hawaii Broadband Access Fund (H-BAF)

- HT proposes no changes to the high-cost loop support (HCLS), local switching support (LSS), or interstate common line support (ICLS) received by Sandwich Isles Communications (SIC)
  - These amounts also could be frozen at 2010 levels – about \$25 million per year – on the condition that SIC continues providing covered services to the geographic areas for which it receives support
  - SIC support is excluded from any changes because our understanding is it is cost-based and earned exclusively for service within designated portions of the Hawaiian Home Lands (HHL), serving Native Hawaiian populations, pursuant to a waiver of the FCC's rules

# Hawaii Broadband Access Fund (H-BAF)

- Remaining high-cost and access support (ICLS, HCLS and LSS) provided to ETCs other than SIC – about \$34 million in total per year based on 2010 levels – would make up the H-BAF Base Amount, subject to redistribution among carriers within the state as follows:
- For Hawaiian Telcom (HT), the Commission each year would set a NI Factor (NIF) equal to the number of working lines served by HT in the NI as a fraction of total ILEC working lines in the state
  - For example, in 2010, 35.28% of HT's total working lines in the state were in the NI; for 2012, therefore, the NIF of 35.28% would be applied to the H-BAF Base Amount of approximately \$34 million, and HT would receive approximately \$12 million from the H-BAF for funding year 2012
  - NIF provides a useful surrogate for the percentage of the state that represents high-cost areas



# Hawaii Broadband Access Fund (H-BAF)

- Remainder of H-BAF Base Amount – roughly \$22 million – would be redistributed as the FCC deems appropriate to maximize investment in underserved parts of the state, for example:
  - The Commission might auction the support by wire center or census block; or
  - The Commission might allocate the support in proportion to the number of customers each competitive ETC serves in the NI



# Public Benefits of the H-BAF

- Caps federal high-cost and access support in Hawaii at 2010 levels
- Addresses the unique challenges in Hawaii of providing broadband service to underserved Native Hawaiians and residents of insular areas
- H-BAF will stimulate greater investment in high-cost areas of the state including areas suffering with only dial up service today
  - Broadband 4 /1 Mbps upstream/downstream would reach most areas in the state that cannot be reached today in the absence of federal support
  - Approximately 85% of customer locations throughout the NI within 10 years, and at least a minimum level of broadband connectivity at the same speeds to all NI wire centers within 5 years, assuming the availability of affordable middle mile facilities
- Redistributes support in historically underfunded high cost areas while not affecting SIC support for HHL

# ICC Reform Should Be Incremental In Hawaii

- Access charge reform should not be implemented until the H-BAF plan is implemented
- Mandatory reductions in any access rates will have a significant effect on HT customers
- The FCC should not mandate reductions in access charge except to require that the switching component of intrastate terminating access rates be reduced until they are brought into parity with interstate rates
  - These reductions should occur in two equal steps, beginning July 1, 2012 and ending July 1, 2013
- The FCC should not order any further ICC reductions until it evaluates the impact of this change on consumers